

discuss briefly below, Malrite's LMA with Cannell Cleveland L.P. provides a useful illustration of these benefits.³

Malrite operates WOIO Channel 19, licensed to Shaker Heights, Ohio, the current CBS network affiliate in Cleveland. Cannell Cleveland L.P. owns WUAB Channel 43, licensed to Lorain, Ohio. Under the terms of an LMA between the two stations that took effect in mid-1994, Malrite effectively operates and sells the advertising time for both of these UHF stations. The history of this LMA provides an example of the benefits that accrue both to the parties and to the community from such combinations.

A. Diversity

By combining and sharing the resources of WOIO and WUAB — two relatively weak UHF stations — Malrite was able to assemble an efficient news gathering and reporting operation. Consequently, it successfully introduced news programming that, absent the LMA, the separate stations would not have offered.⁴ Indeed, the combination enabled Malrite — the time broker in the LMA — to assemble, in a cost-efficient manner, an audience of sufficient critical mass, in terms of the breadth and diversity of attributes, that advertisers could view the combined stations as a reasonable alternative to the stronger nationally-owned VHF stations in the marketplace. The ability to sell this type of broader-reach advertising across the two stations generated sufficient revenues to justify Malrite's investment in these news, programming and production operations.

³ NERA performed certain analyses in connection with Malrite's LMA with Cannell regarding the competitive environment in which the stations compete. (See, for example, Howard P. Kitt and Phillip A. Beutel, *An Economic Analysis of the Relevant Advertising Market(s) within Which to Assess the Likely Competitive Effects of the Proposed Time Brokerage Arrangement between WUAB Channel 43 and WOIO Channel 19*, July 15 1994; Sumanth Addanki, Phillip A. Beutel and Howard P. Kitt, *Regulating Television Station Acquisitions: An Economic Assessment of the Duopoly Rule*, May 17, 1995; both cited in the FCC's *Second Notice*, footnote 35.) In the course of that work, we became familiar with the local market and the stations' operations therein.

⁴ For example, WOIO can now produce and air 6am, noon, 6pm and 11pm local newscasts, Monday through Friday, as well as 6pm and 11pm local newscasts on Saturday and 6:30pm and 11pm on Sunday. WUAB, as well, finds it remunerative to continue its 10pm newscast (which, we understand it would not have done absent the LMA).

With these scale economies Malrite also gained the ability to create and broadcast commercially attractive, locally-oriented special programming that otherwise would not have been remunerative on a stand-alone basis.⁵ For example:

- Beginning about May 1996, Malrite has created and broadcast a monthly half-hour educational program, called *Planet Cleveland*, that involves Cleveland-area children visiting places of local interest — *e.g.*, local museums, zoos, businesses and parks. (This contrasts with the largely syndicated, *i.e.*, non-local, children's fare offered by other stations in Cleveland and elsewhere.)
- From about July 1995, and at least several times a year since then, WOIO-WUAB has been able to produce half-hour or one-hour local-interest specials. These programs have covered a variety of topics, including the July 4th fireworks coverage, the Cleveland Indians' pennant winning season, local election coverage and medical issues involving children.

This additional local-interest programming clearly represents a genuine increase in program diversity for Cleveland consumers. To be sure, the FCC has traditionally held the notion that more separately owned stations leads to more diversity. As we noted in an earlier paper,⁶ the FCC's view could well be wrong. Specifically:

“Consider a monopolist that owns all of the channels in a given area. It could well maximize profits by offering a broad range of programming, thus appealing to every audience niche. Here, greater concentration of ownership may actually promote diversity.⁷ In contrast, consider areas in which there are a relatively large number of competing stations: each might maximize its profits by

⁵ According to Malrite, without the LMA few, if any of the specials noted, would have been produced. (Malrite Reply Comments, ¶ 9.)

⁶ See, “Regulating Television Stations Acquisitions: An Economic Assessment of the Duopoly Rule,” Sumanth Addanki, Phillip A. Beutel and Howard P. Kitt, May 25, 1995, filed on behalf of the Local Station Ownership Coalition at Tab K, pp. 20-21.

⁷ The Commission recognizes this alternative school of thought. (See, FNPRM, p. 28.)

choosing programming to attract the median viewer.⁸ In that case, diversity might be minimized.”

B. Community

As a result of the scale effects described above, the Cleveland LMA not only fostered new local-interest programming, it also allowed the combined owner to increase its investment in the local community. More precisely, as we understand it, prior to the LMA, both WOIO and WUAB had production and office facilities in less accessible suburban locations. Post-LMA, the two stations were able to combine their facilities in downtown Cleveland: The new facilities include a streetside, storefront studio dedicated to local public affairs programming — *e.g.*, with guests ranging from local medical experts, charitable organizations, Ohio political officials and others.

Moreover, we understand that, as a direct result of the LMA:

- Approximately 99 new jobs — primarily news and production personnel — were added to the combined stations’ operations. Consequently, the combined entity’s payroll and benefits are about \$5.5 million greater than in May 1994. This extra employment has undoubtedly benefited the entire local community as well.
- For example, the U.S. Department of Commerce has estimated the following regional multipliers: (1) for each additional dollar of payroll in the communications business, an additional \$1.80 is added to the Cleveland economy; (2) for each additional employee, an incremental 2.2 jobs are created in the local/regional area; and (3) for each additional dollar of output delivered to final demand by the communications industry in Ohio, an additional \$0.52 is added to the earnings of employees in — and an additional \$1.80 of output is produced by — all other industries in the local/regional economy.

⁸ The Commission refers to this school of thought as the “51 stations provide more diversity than 50” approach. (See, FNPRM, p. 27.)

- These regional multipliers yield the following community benefits: (1) The incremental \$5.5 million of payroll added by WOIO-WUAB translates into about \$9.9 million in additional earnings in the Cleveland metro area; (2) The incremental employment of 99 jobs translates into an additional 217 jobs in the local area; and (3) The incremental output⁹ of \$1.5 million translates into increased community output of \$2.7 million and increased household income in the region of about \$780,000.¹⁰ These results are set forth in Table 1.

C. Efficiencies

Combined ownership can often allow the stations' owner(s) to realize substantial overhead and operating cost savings. Indeed, because the two UHF stations covered by Malrite's LMA can share facilities, it can realize lower management, overhead and joint program production costs. Moreover, as noted above, the two stations' critical mass justified investments in programming and facilities improvements of about \$9.3 million in capital expenditures since 1994.

Consumers in Cleveland clearly benefited: Viewers gained more diverse programming than would have been economically justifiable on a stand-alone basis. Advertisers gained additional programming on which to purchase time and an additional broad-reach alternative to the existing VHF stations (and, indeed, other media as well) in the marketplace.

⁹ This figure represents the additional local programming production expenditures incurred by the LMA (excluding employment costs), on the assumption that such programming has been substituted for non-local programming produced elsewhere. As we understand it, Malrite's incremental annual program production costs — excluding labor — totals approximately \$1.5 million — *i.e.*, \$20,000 for *Planet Cleveland*, \$80,000 for news specials, \$40,000 for other specials and \$1.4 million for its regular newscasts.

¹⁰ *Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II)*, U.S. Department of Commerce, Economics and Statistics Administration, Bureau of Economic Analysis, May 1992, p. 38.

IV. CONCLUSIONS

In sum, allowing common ownership of — or LMAs between — local televisions may, in certain instances, serve both the FCC's competition and diversity objectives. That is, such combinations can reduce costs by, at a minimum, diminishing or eliminating altogether duplicative efforts. By investing those savings — along with the scale effects of being able to sell advertisers a larger audience — the station could increase the variety of programming available to viewers — thus improving diversity — and/or respond to competitive pressures in the advertising marketplace (perhaps in the form of lower ad prices). The WOIO-WUAB experience shows that these are not purely hypothetical benefits.

**Economic Benefits to Cleveland
from the Incremental Contributions
of the WOIO-WUAB LMA**

	Incremental Effects	Multiplier	Total Benefit to Cleveland
	(a)	(b)	(c)
			[(a)*(b)]
Employment (Persons)	99	2.3	224
Payroll (\$Million)	\$ 5.5	1.8	\$ 9.7
Output (\$Million)			
a) Regional Earnings	\$ 1.5	0.5	\$ 0.8
b) Regional Output	\$ 1.5	1.8	\$ 2.7

Sources: *Regional Multipliers: A User Handbook for the
Regional Input-Output Modeling System (RIMS II)*,
U.S. Department of Commerce, May 1992.
Information provided by Malrite.

CERTIFICATE OF SERVICE

I, Toni R. Daluge, a secretary in the law firm of Kaye, Scholer, Fierman, Hays & Handler, LLP, do hereby certify that on this 21st day of March, 1997, a copy of the "Reply Comments of Malrite Communications Group, Inc." in response to the Commission's Second Further Notice of Proposed Rulemaking was sent via regular United States mail, postage prepaid, to the following:

Chairman Reed E. Hundt *
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Commissioner James H. Quello *
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, D.C. 20554

Commissioner Rachelle B. Chong *
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, D.C. 20554

Commissioner Susan Ness *
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, D.C. 20554

General Counsel
Cap Cities/ABC, Inc.
77 West 66th Street
New York, New York 10023

* VIA HAND DELIVERY

Robert E. Branson, Esq.
3 Constitution Plaza
Hartford, CT 06103
Counsel to Post Newsweek Stations, Inc.

GiGi B. Sohn, Esq.
Media Access Project
1707 L Street, N.W. Suite 400
Washington, D.C. 20036

Angela K. Campbell, Esq.
Institute for Public Representation
Georgetown University Law Center
600 New Jersey Avenue, N.W.
Washington, D.C. 20001

Timothy J. Fitzgibbon, Esq.
Carter, Ledyard, Milburn
1350 I Street, N.W. Suite 870
Washington, D.C. 20005

Fritz E. Attaway, Esq.
Motion Picture Assoc. of America, Inc.
1600 Eye Street, N.W.
Washington, D.C. 20006

Office of Advocacy
U.S. Small Business Administration
409 3rd Street, S.W. 7th Floor
Washington, D.C. 20416

Gregory M. Schmidt, Esq.
Covington & Burling
1201 Pennsylvania Ave, N.W.
Washington, D.C. 20044

Office of Communications of the United
Church of Christ
2000 M Street, N.W. Suite 400
Washington, D.C. 20036

Vincent A. Pepper, Esq.
Pepper & Corazzini, LLP
1776 K Street, N.W. Suite 200
Washington, D.C. 20009

Gardner F. Gillespie, Esq.
Hogan & Hartson, LLP
555 13th Street, N.W.
Washington, D.C. 20004


Toni R. Daluge